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April 8, 2011

VIA ELECTRONIC FILING

The Honorable Jocelyn Boyd
Chief Clerk and Administrator
Public Service Commission of South Carolina
101 Executive Center Dr., Suite 100
Columbia, SC 29210

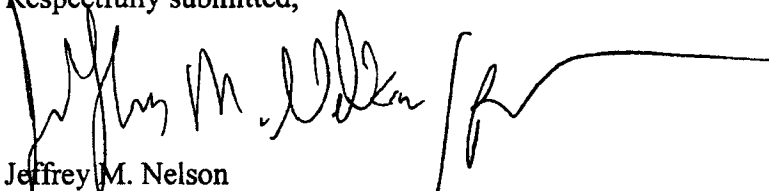
RE: Annual Review of Base Rates for Fuel Costs of South Carolina Electric & Gas
Company - Docket No. 2011-2-E

Dear Ms. Boyd:

Please find enclosed the Joint Proposed Order of South Carolina Office of
Regulatory Staff and South Carolina Electric & Gas Company in the above-referenced
docket.

If you have any questions regarding these matters, please do not hesitate to contact
me.

Respectfully submitted,



Jeffrey M. Nelson

cc: Parties of Record

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2011-2-E
April __, 2011

IN RE:)	
)	
Annual Review of Base Rates For)	JOINT PROPOSED ORDER
Fuel Costs of South Carolina Electric)	APPROVING FUEL COSTS
& Gas Company)	AND ADOPTING
)	SETTLEMENT AGREEMENT

This matter comes before the Public Service Commission of South Carolina (“Commission”) on the annual review of the fuel purchasing practices and policies of South Carolina Electric & Gas Company (“SCE&G” or “Company”) and for a determination as to whether any adjustment in the fuel cost recovery factors is necessary and reasonable. The procedure followed by the Commission in this proceeding is set forth in S.C. Code Ann. § 58-27-865 (Supp. 2010). Specifically, S.C. Code Ann. § 58-27-865(B) states in pertinent part that, “[u]pon conducting public hearings in accordance with law, the [C]ommission shall direct each company to place in effect in its base rate an amount designed to recover, during the succeeding twelve months, the fuel costs determined by the [C]ommission to be appropriate for that period, adjusted for the over-recovery or under-recovery from the preceding twelve-month period.” The period under review in this docket is January 1, 2010, through December 31, 2010.

By letter dated October 8, 2010, the Commission’s Clerk’s Office instructed the Company to publish a Notice of Hearing and Prefile Testimony Deadlines (“Notice”) in newspapers of general circulation in the area affected by the Commission’s annual review of the Company’s fuel purchasing practices and policies by January 7, 2011. The Notice

also instructed the Company to furnish the Notice to its customers by U.S. Mail, or by electronic mail to customers who have agreed to receive notice by electronic mail, by January 7, 2011. The Notice indicated the nature of the proceeding and advised all interested parties desiring participation in the scheduled proceeding of the manner and time in which to file appropriate pleadings. On January 4, 2011, the Company filed with the Commission affidavits demonstrating that the Notice was duly published in accordance with the Clerk's Office's instructions and certified that a copy of the Notice was furnished to each affected customer.

Timely petitions to intervene were received from CMC Steel South Carolina ("CMC Steel") and the South Carolina Energy Users Committee ("SCEUC"), which were not opposed. The South Carolina Office of Regulatory Staff ("ORS") is automatically a party pursuant to S.C. Code Ann. § 58-4-10(B) (Supp. 2010).

The Commission convened a hearing on this matter on March 24, 2011, with the Honorable John E. Howard, Chairman, presiding. SCE&G was represented by K. Chad Burgess, Esquire; Matthew W. Gissendanner, Esquire; and Mitchell Willoughby, Esquire. SCEUC was represented by Scott Elliott, Esquire. CMC Steel and its counsel of record did not appear at the hearing. Jeffrey M. Nelson, Esquire and Courtney D. Edwards, Esquire represented ORS. In this Order, ORS, SCEUC, CMC Steel and SCE&G are collectively referred to as the "Parties" or sometimes individually as a "Party."

At the outset of the hearing, counsel for ORS presented the Settlement Agreement that was filed with the Commission on March 17, 2011. The signatories to the Settlement Agreement were SCE&G, ORS, and SCEUC (collectively, the "Settling Parties"). The Settlement Agreement was admitted into the record as Hearing Exhibit 1 and is attached

hereto and incorporated herein as Order Exhibit No. 1. In the Settlement Agreement, the Settling Parties represented to the Commission that they had discussed the issues presented in this case and determined that each party's interests and the public interest would be best served by settling all issues pending in this case in accordance with the terms and conditions contained in the Settlement Agreement.

S.C. Code Ann. § 58-3-140(A) (Supp. 2010) vests the Commission with the "power and jurisdiction to supervise and regulate the rates and service of every public utility in this State" In carrying out these duties in relation to the Settlement Agreement, the Commission's published "Settlement Policies and Procedures" (Revised 6/13/2006) are applicable to guide this proceeding. Specifically, Section II of the Settlement Policies and Procedures, titled "Consideration of Settlements," states:

When a settlement is presented to the Commission, the Commission will prescribe procedures appropriate to the nature of the settlement for the Commission's consideration of the settlement... [W]hen the settlement presents issues of significant implication for other utilities, customers, or the public interest, the Commission will convene an evidentiary hearing to consider the reasonableness of the settlement and whether acceptance of the settlement is just, fair, and reasonable, in the public interest, or otherwise in accordance with law or regulatory policy. Approval of such settlement shall be based upon substantial evidence in the record.

Because this case presented issues of significant implication for the utility and the public interest, a hearing has been held to consider the merits of this case, including the Settlement Agreement, and we now proceed to evaluate the record in this proceeding.

Through their personal appearances, SCE&G presented the testimonies of George A. Lippard, III, Joseph K. Todd, Rose M. Jackson, Michael D. Shinn, Allen W. Rooks, and Stephen A. Byrne. Through their personal appearances, ORS presented the

testimonies of Christina L. Seale and Michael L. Seaman-Huynh. The testimonies and exhibits of SCE&G Witnesses Lippard, Todd, Jackson, Shinn, and Rooks and the testimonies and exhibits of the ORS witnesses were stipulated into the record of the case without objection. At the request of SCE&G, certain portions of the testimony of SCE&G Witness Shinn were declared to be confidential by the Commission and will be maintained in the non-public records of the Commission and of the transcript of the hearing. *See* Commission Order No. 2011-176 dated March 2, 2011, issued in the above-referenced docket. SCE&G Witnesses Lippard, Todd, Jackson, Shinn, and Rooks were presented in a panel, and the ORS Witnesses were presented individually. Each of the witnesses presented summaries of their testimony and then were made available to respond to questions propounded by the Commission.

SCE&G witnesses testified in support of the Settlement Agreement and on issues related to the prudence of SCE&G's fuel purchasing practices, plant operations, and fuel inventory management. SCE&G Witness Lippard discussed the operating performance of the V.C. Summer Nuclear Station. SCE&G Witness Todd reviewed the operating performance of the Company's fossil/hydro units and of South Carolina Generating Company's Williams Electric Generating Station. SCE&G Witness Jackson provided testimony about the natural gas and nuclear fuel purchasing processes for SCE&G generation and discussed natural gas and uranium prices and the near term outlook. Company Witness Shinn discussed the Company's procurement and delivery activities for coal and No. 2 fuel oil for electric generation, the changes that have occurred in coal markets since the last annual fuel adjustment hearing and how these changes affected coal procurement during the period under review. Mr. Shinn also discussed the

procurement and delivery of limestone for the wet scrubbers at Wateree and Williams Stations. Company Witness Rooks provided actual fuel cost data for the historical period under review in this proceeding; provided the projected fuel costs for the period January 1, 2011, through April 30, 2012; and recommended fuel rates for the period of May 2011 through April 2012.

ORS Witness Seale testified and presented the results of the ORS Audit Staff's examination of the Company's books and records pertaining to the Fuel Adjustment Clause operation for the period of January 2010 through December 2010 and the Company's estimated calculations for the months of January through April 2011. ORS Witness Seaman-Huynh testified on the ORS Electric Department's findings and recommendations resulting from ORS's review of the Company's fuel expenses and power plant operations used in the generation of electricity during the period under review. Mr. Seaman-Huynh also testified that SCE&G acted reasonably when responding to an electrical fire that caused an outage extension at the V.C. Summer Nuclear Station in 2009. The Settling Parties agreed to accept all adjustments and recommendations as set forth in ORS Witness Seale's and ORS Witness Seaman-Huynh's testimonies.

At the conclusion of ORS's case-in-chief, SCE&G presented, without objection, oral testimony from its Executive Vice President for Generation and Transmission and Chief Operating Officer, Mr. Stephen A. Byrne. SCE&G Witness Byrne testified about the recent natural disaster in Japan and the challenges faced by Tokyo Electric Power Company at its Fukushima Daiichi nuclear facility. Mr. Byrne also testified as to how the design and operation of V.C. Summer Nuclear Station differs from the design and

operation of the units at the Japanese nuclear facility. SCE&G Witness Byrne's accompanying slide show presentation was admitted into the evidence of record, without objection, as Hearing Exhibit No. 5.

The testimony supported the terms of the Settlement Agreement regarding the appropriate fuel factors for SCE&G to charge for the period beginning with the first billing cycle in May 2011 and continuing through the last billing cycle of April 2012. Under the terms of the Agreement, SCE&G agrees to recover an amount equal to the actual base fuel under-collected balance as of April 30, 2011, which is projected to be \$59,504,695, over a two year period commencing with the first billing cycle for May 2011. The Parties agree that SCE&G will be allowed to charge and accrue carrying costs monthly on an amount equal to the actual under-collected balance as of April 30, 2011, less \$29,752,347.50. The applicable interest rate used to calculate the carrying costs is the rate of interest as of the first day of each month during the applicable period for the 3-year U.S. Government Treasury Note, as reported by the Wall Street Journal, either in its print edition or on its website, plus an all-in spread of 65 basis points (0.65 percentage points). The applicable period during which carrying costs may be applied begins May 1, 2011, and ends April 30, 2012, or when the under-collected balance is eliminated, whichever occurs first. The total carrying cost rate to include the 65 basis points shall not exceed 6%.

The Settlement Agreement describes how the two-year collection of the under-recovery and SCE&G's applicable carrying costs will operate. For the period of the first billing cycle of May 2011 through the last billing cycle of April 2012, SCE&G shall recover, in addition to its forecasted fuel costs, one half of the projected under-collected

balance, which is \$29,752,347.50, in the fuel rates set forth below. As described above, interest on the remaining portion of the actual under-collected balance as of April 30, 2011, shall accrue beginning May 1, 2011. The Settling Parties also agree that the first dollars recovered in the succeeding twelve months beginning with the first billing cycle for May 2011 shall be applied to the under-collected balance so that in the next fuel proceeding for SCE&G any under-recovery will be for the period May 1, 2011, through April 30, 2012.

For the period of the first billing cycle for May 2011 through the last billing cycle for April 2012, the Settlement Agreement sets forth the appropriate fuel factors for SCE&G to charge which are listed in the table below:

Class	Base Fuel Cost Component (cents/KWH)	Environmental Fuel Cost Component (cents/KWH)	Total Fuel Costs Factor (cents/KWH)
Residential	3.586	0.069	3.655
Small General Service	3.586	0.047	3.633
Medium General Service	3.586	0.038	3.624
Large General Service	3.586	0.016	3.602
Lighting	3.586	0	3.586

The remaining portion of the actual under-collected balance as of April 30, 2011, plus accrued interest for the period of May 2011 through April 2012 shall be recovered through SCE&G's base fuel cost component beginning with the first billing cycle in May 2012 and ending with the last billing cycle of April 2013.

After hearing the evidence and testimony of the witnesses and reviewing the Settlement Agreement, the Commission finds and concludes that the fuel purchasing practices and policies, plant operations, fuel inventory management, and all other matters

associated with S.C. Code Ann. § 58-27-865 (Supp. 2010) of SCE&G are reasonable and prudent, and that approval of the Settlement Agreement is consistent with the standards for fuel review proceedings conducted pursuant to S.C. Code Ann. § 58-27-865 (Supp. 2010). The settlement allows recovery by SCE&G of fuel costs as precisely and promptly as possible and in a manner to assure public confidence and minimize abrupt changes in charges to customers. As such, it is in the public interest as a reasonable resolution of the issues in this case. We also find that the resolution of issues among the Settling Parties as set forth in the Settlement Agreement does not appear to inhibit economic development.

IT IS THEREFORE ORDERED THAT:

1. The fuel purchasing practices and policies, plant operations, fuel inventory management, and all other matters associated with S.C. Code Ann. § 58-27-865 (Supp. 2010) of SCE&G are reasonable and prudent for the period January 1, 2010, through December 31, 2010.
2. The Settlement Agreement is incorporated herein by this reference, is found to be a reasonable resolution to the issues in this case, is in the public interest and is therefore hereby adopted and approved. The Commission also approves the tariff sheet attached to the Settlement Agreement as Exhibit A and entitled “Adjustment For Fuel And Variable Environmental Costs.”
3. SCE&G shall set its Base Fuel Cost Components, Environmental Fuel Cost Components and Total Fuel Cost Factors consistent with the amounts set forth in the

table below effective for bills rendered on and after the first billing cycle of May 2011, and continuing through the last billing cycle of April 2012.

Class	Base Fuel Cost Components (cents/KWH)	Environmental Fuel Cost Components (cents/KWH)	Total Fuel Costs Factors (cents/KWH)
Residential	3.586	0.069	3.655
Small General Service	3.586	0.047	3.633
Medium General Service	3.586	0.038	3.624
Large General Service	3.586	0.016	3.602
Lighting	3.586	0	3.586

4. SCE&G shall be allowed to charge and accrue carrying costs monthly on an amount equal to the actual under-collected balance as of April 30, 2011, less \$29,752,347.50.

5. The applicable interest rate used to calculate the carrying costs is the rate of interest as of the first day of each month during the applicable period for the 3-year U.S. Government Treasury Note, as reported in the *Wall Street Journal*, either in its print edition or on its website, plus an all-in spread of 65 basis points (0.65 percentage points). The total carrying cost rate to include the 65 basis points shall not exceed 6%. The applicable period during which carrying costs may be applied begins May 1, 2011, and ends April 30, 2012, or when the under-collected balance is eliminated, whichever is first.

6. The Parties shall abide by all terms of the Settlement Agreement.

7. SCE&G shall file with the Commission the tariff sheet approved by this Order entitled "Adjustment For Fuel And Variable Environmental Costs" and all other retail tariff sheets within ten (10) days of receipt of this Order, and also serve copies on

the Parties. The fuel rates reflected in any such tariff sheets shall be consistent with the components and factors set forth in ordering Paragraph No. 3 above.

8. SCE&G shall comply with the notice requirements set forth in S.C. Code Ann. § 58-27-865(B) (Supp. 2010).

9. SCE&G shall continue to file the monthly reports as previously required. SCEUC shall be provided a copy of the monthly reports.

10. SCE&G shall account monthly to the Commission and ORS for the differences between the recovery of fuel costs through base rates and the actual fuel costs experienced by booking the difference to unbilled revenues with a corresponding deferred debit or credit. ORS shall monitor the cumulative recovery amount.

11. SCE&G shall submit monthly reports to the Commission and ORS of fuel costs and scheduled and unscheduled outages of generating units with a capacity of 100 MW or greater.

12. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

John E. Howard, Chairman

ATTEST:

David A. Wright, Vice-Chairman

(SEAL)

BEFORE
THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA
DOCKET NO. 2011-2-E

IN RE:

Annual Review of Base Rates for Fuel Costs of)	
South Carolina Electric and Gas Company)	CERTIFICATE OF
)	SERVICE

This is to certify that I, Pamela J. McMullan, have this date served one (1) copy of the **JOINT PROPOSED ORDER** in the above-referenced matter to the person(s) named below by causing said copy to be deposited in the United States Postal Service, first class postage prepaid and affixed thereto, and addressed as shown below:

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Willoughby & Hoefer, P.A.
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Damon E. Xenopoulos, Esquire
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1025 Thomas Jefferson Street, N.W.
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Pamela J. McMullan

April 8, 2011
Columbia, South Carolina